

JIMMA UNIVERSITY
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A REPORT ON THE STUDY:
CAUSES FOR SLUGGISH GROWTH OF
SMALL SCALE-INDUSTRIES
(THE CASE OF JIMMA TOWN)

BY

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***CAUSES FOR SLUGGISH GROWTH OF SMALL SCALE
INDUSTRIES***

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ABSTRACT

The development of small-scale industries (SSIs) is sluggish in Ethiopia (Adugna Lemi, 1997). This is due to many constraints including finance. The purpose of this research is to identify possible causes for sluggish growth of SSI in Jimma Town and propose some promotional measures to be adopted to facilitate the development of SSI.

The research was conducted from January to April, 2002 in Jimma Town. The industries undertaken in the study were, Flour factory, office and H.H. furniture, brick and blocked factory, coffee driers, Chipboard, factory stone crusher and metal works.

For undertaking this research, the study used both primary and secondary data to identify constraints that hinder the development of SSI. The study was mainly based on primary data which were collected using the questionnaire developed so that the information used for analysis was highly reliable. Documents from trade, industry and tourism bureau also used for the study. Based on these two sources of information the analysis was made and the result and discussion is compiled. Then, general and conclusion and recommendation is deducted. One copy of the report will be given to trade, industry and tourism bureau, Jimma Zone, and hence it will serve as a base line to make mandatory steps for the development SSI in the town.

I think the root causes of the sluggish growth of SSI may be the managers of the SSI face a general lack of entrepreneurial and managerial capacity in addition to investment and financial problems. Most industries in the town are managed by the owners in the absence of basic knowledge how to manage the operation of the organization.

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ABBREVIATIONS

SSIs = Small scale industries

Mgrs = Managers

WIP = Work – in – Process

MKt = Market

SSEs = small scale enterprises

Gov't = government.

CHAPTER – ONE

INTRODUCTION

Ethiopia is poor and overwhelmingly agricultural country, with farm products accounting for over half of the country's gross domestic product and 90% of its export (mainly coffee). Economically, the greatest population is engaged in subsistence farming (from internet, unknown author). Because of its degraded lands, poor cultivation practices and frequent periods of drought, Ethiopia is chronically unable to feed its population and has rely on massive food imports.

Industrialization is found to be crucial to alleviate and/or reduce the preceding problem and to the economic development of the country. Particularly, small scale industries (SSIs) seem to be the sources of income, employment, skills, goods & services..... for people in developing countries (Gethachew Abebe & Getachew Belay, 1997). Both rural and urban Ethiopia people are believed to have been the beneficiaries of these economic units.

The issues of SSI and entrepreneur ship development have received a great deal of attention as priority in both developed and developing countries. There has been a substantial growth in both private and public interest in the development of SSI_s in the developing countries and also through out the world. (Andualem Tegegne, 1997).

In Ethiopia, the SSI sector has been neglected for long. However, especially following the country's shift to a market economy, the government as well as NGO_s and donors have shown interests in the area even if it is not satisfactory. Due to this reason, the growth/development of SSI is found to be sluggish. Hence, I found that it is mandatory to identify constraints that hinder

the growth of SSI in Jimma town which are bases for the development of the town, the living standard of the people and the development of the country's economy in turn.

1.1. STATEMENT OF THE PROBLEM

In Ethiopia, during 1980s, the growth rate and capacity utilization of small-scale industries was less than 50% (Adugna Lemi, 1997). These days also the development of these industries is not as such progressive. This may be due to lack of investment capital for buying machinery & equipment and for the day-to-day running of the business, and poor infrastructure facilities.

Jimma is one of the most suitable area for the expansion of small scale industries like brick and block factory, office and house furniture, coffee processing factory and so on. This is because the region is rich in the availability of raw materials (inputs) for these industries. The nature of the soil in the region is clay which is used for Hollow and block factory. Wood and Coffee are also available for the rest two factories. However, there is a gap between what is available and what is exploited. Thus the purpose of this research is to identify causes that hinder the growth and expansion of SSI and to pinpoint ways and means how the available resources can be utilized efficiently and effectively so as to upgrade industrialization in the country.

The study aims to answer the following questions:

- ◆ Which of the constraints have a greater influence on the growth and expansion of SSIs in Jimma Town.
- ◆ which of the most influential factors are amenable to policy intervention? What interventions could be undertaken by the government, entrepreneurs, and the community?

1.2. SIGNIFICANCE OF THE STUDY

It is widely accepted that industrialization is one of the important conditions for progress and development. Industrialization positively influences economic development and contributes much towards the overall socio economic transformation of any society (Assefa Admassie, 1997). Industrial development be it small scale or large scale, plays a crucial role in the economic development of the country. Although large-scale industry is very relevant and desirable, it has little applicability for the present day less developed countries like Ethiopia because of its large initial or startup capital requirements. As a result promoting large scale industry will not bring desired momentum for the economic development of the country. Small-scale industries, however, are best suited to advance industrialization in Ethiopia.

The role of small-scale industry in developing countries is significant in terms of employment generation capacity, quick production response, their adaptation to weak infrastructure and use of local resources, and as means of developing indigenous entrepreneurial and managerial skills for sustained industrialization (Areetey Et al., 1994). The development of small scale industry contribute directly to the industrialization process by serving as seedbed for entrepreneurs and for future large firms, then operational flexibility and fluid organizational structure foster competition _ a precondition for rapid industrialization transformation (Adugna Lemi, 1997). However, in Ethiopia, their significant role is faced with a number of constraints including finance (sonko, 1994). Due to these constraints the immense importance of small-scale industry remains to be dream to we Ethiopians.

The purpose of the study is to identify constraints that hinder the development of small scale industry and propose some promotional measures to be adopted to facilitate the development of SSI. This will help us to meet the immense importance of SSI that is to see what was a mere dream will be turned into a reality.

1.3. OBJECTIVE OF THE STUDY

This research aims at identifying the causes for sluggish growth of small scale industries in the case of Jimma Town. Hence, the various factors that affect the growth /development of small scale industries will be investigated. Generally, the research manages to meet the following objectives.

- Determine the growth or expansion of **SSIs in the town (to test whether it is sluggish or not)**
- Identify the key constraints affecting the development and expansion of small scale industries and propose some promotional measures to be adopted to facilitate the development of these industries.
- Evaluate the degree to which managers of SSIs can manage the industry, i.e., evaluate the skills and competence of managers to manage the operation of the industry.
- Assess the size, structure and performance of the industry.
- Evaluate how SSIs utilize resources efficiently and effectively.

1.4. SCOPE AND LIMITATION

The study focused its investigation on 16 small-scale industries supposed to be representatives. It was supposed to undertake the investigation on 18 small-scale industries and the study takes into account these industries for primary sources of data. It was supposed to use secondary data from Trade, Industry, and Tourism bureau which are of recent times. However, recent documents regarding these industries are not available and data collected five or six years back are used where necessary. More over structured observation was also used as a means of data collection, i.e, having a carefull look at the operations of small scale industries; how workers in the industry produce the product, the layout arrangement, and how the workers handle inputs, work – in – process, and finished outputs.

The types of small-scale industries used for the study are: Flour factory, Brick and blocket factory, wood works, Ply wood factory, metal works, coffee driers, and S tone crusher. Some small-scale industries which seem not feasible are not included.

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1.5. METHODOLOGY

The research was conducted in Jimma Town which is the capital of Jimma zone in region 4. The following table shows the type and no of small scale industries selected for the study.

<i>Type of SSI</i>	<i>No of SSI</i>	<i>No of selected SSI for the study</i>
<i>Flour factory</i>	1	1
<i>Brick and Blocket factory</i>	5	3
<i>Office and house furniture</i>	12	6
<i>Coffee pulpers & huller</i>	7	3
<i>Metal Works</i>	6	3
<i>Stone crusher</i>	2	1
<i>Chipboard</i>	1	1
<i>Total</i>	<i>34</i>	<i>18</i>

Source: *Trade, Industry and Tourism Business, Jimma Zone.*

Method of Data Collection

Data and information that were used for this research were gathered from two main sources: Primary sources of data and secondary sources of data.

Method of Collecting Primary Data

Primary data from primary sources (from selected small scale industries) were collected using:

- i. *Structured Interview*
- ii. *Structured Observation*

I. Structured Interview

Primary data were collected by conducting interview with the manager of each industries under question. For this I have developed 24 questions consists of both open and closed ended questions. I prefer to interview the manager of the industries because she/he is the right person to provide reliable (accurate) information in need of. The questionnaire consists of constraints that are expected to affect the development of SSI_s.

II. Structured Observation

I also had a careful look at how workers in the industry work on machines to produce the output, their diligence, how they handle resources; inputs, work in process, and finished outputs. This helped to gain insight into the causes of sluggish growth of SSI_s.

To the greater extent I used primary data collected using the preceding methods for the analysis as data gathered from primary sources are highly reliable. These primary data were collected from Feb 10 -20, 2002.

Method of Collecting Secondary Data

For these data trade industry and tourism bureau, Jimma Zone, was requested to provide me the necessary documents. Relevant information from five to six years back to the current year was taken for analysis.

Method and Procedure of Data Analysis

After the data are gathered, data processing will be done. Data processing includes:

Completion of the questionnaire:- Data clearing (omission detecting) was made.

Classification of row data:- Using tally sheets and tables, row data were grouped

on the basis of common characteristics. Then frequency distribution and percentage were made.

From both qualitative and quantitative data gathered from primary and secondary sources, comparative analysis was made to show the growth and development of SSI in the town in comparison with similar industries in other areas. From the thorough analysis and interoperation, conclusion and recommendation were deducted and the final report of the research was compiled. This report will serve as a source of information regarding the position of SSIs in the town.

CHAPTER - TWO

2. LITRATURE REVIEW

2.1. Definition of small-scale industries

Small scale industries defined differently in different countries using different measures; quantitative, qualitative or both. The majority of the countries use quantitative measures like number of employees, invested capital, sales volume, value added and so on. N. Siropolis defines small business depending on different yardsticks like total assets, owners' equity, yearly sales volume, and number of employees. And he gives weight to the number of employees in his definition. He describes as small if it employs fewer than 500 persons and should not be part of another business (siropolis, 1997).

In Ethiopia, to date, an official definition of small-scale industries is non-existing (Mekonnen Ayalew, 1996). However, small-scale industry in this paper means those enterprises using relatively simple equipments and employ up to 50 permanent workers. In other words those industries, which trade, Industry and Tourism considered and registered as small-scale industries.

2.2. Importance of SSIs

It is widely accepted that industrialization is one of the most important and necessary condition for progress and development. Industrialization positively influences economic development and contributes much towards, the over all socio economic transformation of any society. Industrial development, be it in terms of SSI or large scale, plays a crucial role in the economic development

of any country. Hence industrialization is often considered as a major agent or force for economic growth and development. (Assefa Admassie, 1996).

SSIs are the breeding grounds of indigenous entrepreneurs because of their low capital requirements, and they are based on indigenous raw materials and technologies as compared to large-scale enterprises. This special feature, coupled with their labour intensity, enables them to generate a large number of employment opportunities, especially for unskilled and semiskilled workers. Hence, SSIs are vehicles for industrial development in countries with limited trained force, capital and technological resources. (Mekonnen Ayalew, 1997).

SSI generally use more of what a country possesses and less of what it lacks. These industries use locally available resources, create more jobs, employ local and semiskilled labour and contribute to a regional distribution of industries. Their need for well developed infrastructure is minimal and have minimal foreign exchange requirements.

SSIs can also serve as breeding ground for skilled industrial workers, managers and entrepreneurs that are essential for the development of medium and large-scale industries. They also contribute to the poverty alleviation efforts. Consequently, the development of SSIs is considered as one of the dynamic factors in the economic development of any country (Assefa Admassie, 1996).

2.3. ENTREPRENEURSHIP

What is entrepreneurship? In order to identify an entrepreneur, first, we should have the concept of entrepreneurship. Even if there are different definitions of entrepreneurship, the popular one is that "Entrepreneurship is the

process of doing something new, and some thing different for the purpose of creating wealth for individual and adding value to the society (KAO, 1993)." Another scholars, RAO, defined entrepreneur ship as a creative and innovative response to the environmental where such responses can take place in any field of social endeavor-Business, industry, Agriculture, education, social work and the like. For this paper we take the KAO's definition of entrepreneurship and perceived entrepreneurship as dynamic process that requires the fusion of talents, ideas, capital, and know-how, the process of which can be considered as the personal quality that enables people to start a new business vigorously and innovatively and expand existing one (Andualem, 1996). He also identify that it is composed of four elements.

- i. The ability to perceive an opportunity
- ii. The ability to commercialize the perceived opportunity (both leading to innovation)
- iii. The ability to persevere it on sustainable basis
- iv. The ability to persevere through systematic means. In short it is the function of entrepreneur.

Who is entrepreneur?

Previously, we have seen entrepreneurship (as a process), but here we look at the individual. There is no still standard or universally accepted definition of an entrepreneur. Some definition include the condition that the entrepreneur should be a founder that they be the owners of the firm; or that entrepreneurs may be distinguished from non-entrepreneurs by the possession of some distinguishing behavioral traits or characteristics.

N. siropolis describe this using a result of research made in July 1995 on " Gallup Poll"; Americans choose on achieving excellence as follows.

- Prefer to work for themselves 52%
- Prefer to work for large corporation 27%
- Prefer to work for small corporation 13%
- Unreported 8%

This study shows that most entrepreneurs want to be founder and owner of their own business. He also describes that entrepreneurs possess certain traits as:

- Innovation – which is the most distinctive entrepreneurial trait which is the Ability to tackle the unknown; they do things in a new and different ways; they weave old ideas into new patterns; they offer more solutions than excuses.
- Risk taking – any new business poses risk for entrepreneurs. They may succeed or they may fail, and they can't foresee which it will be.
- Self Confidence - Entrepreneurs believe in themselves. They have confidence That they can out do anyone in their field. They tend not to accept the status quo, believing instead that they can change the facts.
- Hard Work – Entrepreneurs seem to put longer hours, driven by their desire to excel.
- Goal Setting – Choosing a new meaningful goal
- Accountability – entrepreneurs want full credit for their success or will assume Full blame for their failure.

Now, let's see different definitions of entrepreneur given by different scholars.

- N. siropolis define entrepreneur as " a person who organizes, operates, and assumes the risks for a business venture.
- Robert D. Hirsch says, " The person who is going to establish a new business venture must also be a visionary leader- a person who dreams a great dreams.
- Entrepreneur is a person who has the ability to see and evaluate business opportunities; together the necessary resources to take advantage of them; and to initiate appropriate action to ensure success (Meredith, 1982).
- Entrepreneur is a person who owns, organizes, manges and runs an enterprise assuming the risk of a business (NIESBUD, 1994)
- Entrepreneur is a person who takes risk of setting his own venture for perceived reward – initiates the idea, formulates a plan, organizes resources and puts the plan into action to achieve his goal (EDI –1).

Entrepreneur in this paper means a person who organizes, operates, manages and runs small scale in distress (employed (of his own) assuming the risk of a business lastly, bear a mind that the success of small scale industries is highly dependant upon the entrepreneurs capability. Hence, development of entrepreneurs is vital for business success.

CHAPTER – THREE

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3. DATA ANALYSIS AND INTERPRETATION RESULT AND DISCUSSION

3.1. Constraints that Impede Expansion and Development of SSIs

Small-scale industries, as they operate in a complex and changing environment, they are subject to a diverse array of constraints. Therefore, it is very difficult to search for a single constraint common to all small-scale industries. However, the following are the major constraints that hinder the development and expansion of these industries. The result is based on 16 different small-scale industries taken randomly.

3.1.1. Lack of access to finance (Capital & Credit)

87.5% of SSIs do have financial problem. Financial problem is a major problem not only for these industries but also other firms in Ethiopia. As indicated in the literature (Terefe, Andualem, ILO/JASPA, of the various problem faced by small scale enterprises, particularly in the informal sector enterprise in Ethiopia, the most serious obstacle to doing business is lack of investment (capital) and lack of sufficient loanable funds and facilities. Hence financing stands out as one of the greatest problem facing small-scale industries.

This lack of access to loan is due to the following factors:

- Several collateral requirement
- High interest rate
- Short payment period
- Lack of knowledge about bank services and regulations
- Effect of religion (culture) and so on.

In addition to these factors, the banks are unfamiliar and uncomfortable with such industries because they consider them as involving high risk factors, not dependable, and involve excessive administrative costs (Andualem, 1996).

Due to this reason only 62.5% of SSIs have access to loan (use bank as a source of finance). Of these who use bank as a source of finance, 68.75% are not comfortable with the interest the bank charges them.

Therefore, small-scale industries have been constrained by lack of investment for buying machinery (new and sophisticated), equipment, high skilled labor and for working capital.

3.1.2. **Lack of Entrepreneurial (managerial) skill**

Various studies conducted on SSIs have revealed that there is a general lack of knowledge in entrepreneurial capability. 1994 survey on trend and future development in small scale business found that nearly 50% of the respondent saw inadequate managerial (entrepreneurial) skill as a threat to their companies (Daft, 1997). It is also even doubted whether many of the micro entrepreneurs themselves realize the need. Not only that, but also there are not many institutions that they can go to acquire the necessary skills (Getachew and Getachew, 1997).

From the study conducted, the following indications of entrepreneurial incapability have been found.

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3.1.2.1. Skills/Qualification

As to their qualification, most of the entrepreneurs had below or a high school leaving qualification.

Qualification	No of SSIs mgrs	Percentage
< 12 grade	2	12.5
12 grade	10	62.5
12+ certificate	3	18.75
Diploma	1	6.25
Total	16	100

Table -1- the educational status of SSI managers, Jimma town, 2002.

As we can see from the table the educational status of entrepreneurs is low. The more the qualification, the more the managerial /entrepreneurial capability will be and vice versa. Hence, the low qualification is an indicator of entrepreneurial incapability.

3.1.2.2. Inadequate Plan

"The unprepared mind cannot see the outstretched hand of opportunity"

Alexander Fleming.

Planning is vital business success. It allows to master change. It forces managers to organize their expectations and develop programs to bring them about. Assessing internal and external environmental help managers to see future better.

However, there is no formal planning habit in small-scale industries entrepreneurs. There is no habits of plan explicitly (in detail) and execute according to the plan 68.75% of the respondent do not plan formally (use random planning habit). due to this, when they come to implementation they encounter a problem that then did not expect during planning. In addition 87.5% use intuitive planning approach. They do not use analytical planning approach (using quantitative analysis like conducting marketing research) and this does not enable them to predict future better.

Intuitive planning approach is important during startup of the business, but analytical planning approach should also be incorporated especially during growth and maturity of the company in the company life cycle. Analytical planning at this stage help it predict sales volume. Therefore, they should use this planning approach where necessary.

3.1.2.3. **Startup the business without proper study**

Marketing research is mandatory before startup the business. The farm's survival and growth depends on the depth of its marketing research. Before startup, entrepreneurs need to assess where best to locate, what business they should run, what sales to expect, how much money to raise, what customers to serve and in what business they are.

However, what is found is that entrepreneurs in the town do not made proper market study, but simply start the business by watching others having same business rather than making study before start up. The major problem lies not on selecting the means of start up but on entering blindly with out assess in subsequent effects. Some of them close the business as they do not overcome the competition. Particularly coffee dries, metal works and wood works face this problem. The following result is obtained on how they start up the business.

<i>Technique used to start up the Business</i>	<i>No of Mgs uses the technique</i>	<i>Percentage</i>
Conducting market study	7	43.75
Consulting experts	2	12.5
Watching others having same industry	9	56.25

Table – 2 – Technique used by entrepreneurs to start up the business. The table shows that the entrepreneurs' ability to create new product or new business unit is less.

Often small business fails because management is not prepared to handle increased demands on its skill and knowledge (unable to manage as the firms tend to increase the size and number of employees). He will lose visual control as the operation must rely on more sophisticated ways to plan and control their business. (siropolis, 1997). Unfortunately, they often lack the managerial skills to recognize, hire, and tap the talents they need to survive and grow.

In addition, most firms are managed by the owners in the absence of basic knowledge. This will result in firms failure. The following table shows the proportion of managers who managers the small industries.

<i>Sources of Managers</i>	<i>No of Mgrs</i>	<i>Percentage</i>
Owner	13	81.25
Relative to owner	2	12.5
Employed	1	6.25
Total	16	100

Table – 3- Sources of managers of SSIs, Jimma town, 2002

3.1.3. Lack of Infrastructural Facilities

Poor infrastructure is an obstacle to development. The problem in the town is manifested in many ways. These are lack of electric power supply and shortage in addition to frequent interruption of power (which is the major problem of the town in general), lack of access to water supply, lack of access to market information, lack of transportation (road) to buy inputs and market outputs and high cost and cumbersome bureaucratic system to obtain these facilities. The following table could give additional information on this problem.

<i>Infrastructure Problem</i>	<i>No of SSIs faced the problem</i>	<i>Percentage</i>
Power	11	68.75
Water	6	37.5
Telephone	2	12.5
Road	10	62.5

Table – 4 – Infrastructural problem of SSIs, Jimma town, 2002.

As shown in the table, power, and road (transportation) problem are the major problem faced. The major transportation problem is not on marketing the product but on to obtain inputs from the rural area.

3.1.4. **Market Problem**

<i>Marketing Problem</i>	<i>No of SSIs faced the problem</i>	<i>Percentage</i>
Transportation	8	50%
Price fluctuation	5	31.25
Lack of customers	3	18.75
Lack of sales force	4	25

Table – 5- market problem of SSIs, Jimma town, 2002.

Lack of market information as well as lack of markets is also major impediments to the development of small-scale industries. In addition, owing to lack of market research and information, many of the small-scale industries concentrate in the production of similar products, which puts them in stiff competition with one another.

Seasonal price fluctuation in price of inputs and outputs forced SSIs not to have continuous production. AS the price of coffee decline in the market, coffee driers face a fatal problem. This price decline affects not only coffee driers but also other industries and the entire economy of the country. As the demand of their product is dependent upon the market condition of coffee, most small-scale industries lose sales volume.

3.1.5. Technological Problem

Since SSIs do not have enough capital to acquire new technologies, most of them use obsolete technologies for production. They use old and outdated machines and equipments. Even some do not use machines for production at all. They use manual production system. Thus, the production processes are not efficient and cost effective.

This also reduce quality and increase wastage.

3.1.6. Lack of Raw Materials

75% SSIs do have raw material problem of these, 62.5% of them face this problem due to lack of road even if the input is found locally (due to transportation problem).

Other Problems

We have seen major constraints that affect the development and expansion of small-scale industries. These constraints have greater effect both in magnitude and severity. However, there are also other problems, which have considerable import on development and expansion of SSIs. These are

i. Effects of Non – licensed industries

Licensed SSIs are unable to compete for inputs and price of output in the market, as non-licensed firms do not pay tax and other contribution to the government. Especially coffee driers, wood works and metal works are victim of this problem. Legal (licensed ones) use quality as a competitive weapon to dominate illegal ones. However, as the living standard of the people in the town

is low, they prefer to use a product with a lower price than have a better quality with relatively high price.

ii. **Lack of land /Premises**

For land acquisition is costly to them, most SSIs operate in a very congested places with out having adequate space for machines. There is no enough store for inputs, WIP, and finished outputs. Due to this reason some of them operate just adjust to their house.

iii. **Operations management**

Poor management of the industries resources; people, equipment, materials, time and so on. Poor layout arrangement and keeping inputs and outputs in an unorganized system, which increase wastage and scrap.

iv. **Lack of Support from Government and NGOs.**

87.5% of SSIs replied that they do not get any institutional support. They claimed that they faced many ups and downs even to acquire licenses during start up. Depending on the line of activity, entrepreneurs are required to approach different bureaus like Trade and industry, Transport, municipality, etc each having its own criteria and regulations for issuance of licenses. This tiresome activity discourages entrepreneurs from formalizing their business. Apart this, there is no advisory service or support from government and non-government organization.

v. **Policy Constraints**

The recent promulgation that has made land acquisition on the basis of lease system has greatly dwindled the chance of SSIs entrepreneurs who aspire

to start up business. Discrimination and bureaucratic system to get kebele administered and government-owned real estates discourage entrepreneurs. The currently working condition, that both the land lease policy and the ethnic-based federal arrangement are likely to have a serious impact of inhabiting the development of entrepreneurship in the country (Ayalew, 1995).

3.2. **Structure of Small Scale Industries**

There are different small-scale industries in the Town. Wood works, which are large in number, concentrated around the bus-station (North west of the town). There are many wood works that are not licensed and registered which operated just adjacent to their house. This is followed by coffee driers, which are also found in same area. The following table shows the type and number of SSIs in 1997/8.

SN	Type of SSI	No of SSI	Capital/Birr
1	Flour factory	1	191,000
2	Brick & blocket	5	1,884,000
3	Wood works	12	1,266,000
4	Coffee driers	7	1,226,000
5	Plywood	1	1,500,000
6	Stone crusher	2	367,000
7	Soap	1	157,000
8	Oil mill	6	903,000
9	Metal works	6	402,000
Total		41	6,670,000

Table-6. Number and type of SSIs with respective working capital.
source: Trade, Industry and Tourism bureau, Jimma zone.

- Wood works produces house and office furniture (Chairs, tables, beds, shelves, house decorates...).

3.3. **Growth and Expansion of SSIs**

As the result of constraints that impede the growth and development/expansion of SSIs, it is found to be sluggish. Based on the judgmental measurement of small-scale managers, the following result is obtained.

<i>Growth of SSI</i>	<i>No of SSI</i>	<i>Percentage</i>
Decline/stagnant	10	62.5
Slow	5	31.25
Moderate	1	6.5
Fast	-	-
<i>Total</i>	16	100

Table- 7. Growth of SSI, Jimma town, 2002.

As we can see from the table most SSI doesn't show growth this is due to the aforementioned constraints listed earlier. Some SSIs particularly coffee driers shutdown the operation due to the price decline of coffee in the market. Those entrepreneurs who engaged in this activity, faces a serious problem due to market condition of coffee.

The expansion of SSI is also low as compared to other zones in region 4. The growth of the town can also be a good indicator of sluggish growth of small-scale industry. The town in old in establishment, but as Industries did not expand the growth of the town is not fast like that of Nazareth. In Nazareth the

expansion of industries is fast and the growth of the town in parallel to this it is fast. The following table shows the zonal distribution of SSI establishments in region 4 and changes after 1994/5 of SSI. The changes reveal that the rate of expansion of SSI in each zone.

<i>Zone</i>	<i>No of SSI</i>	<i>Change after 94/95</i>
East Shewa	640	125
West shewa	978	383
North Shewa	422	60
West Harerge	205	45
East harege	348	111
Arsi	501	106
Bale	287	60
Borena	166	57
West Wlega	288	51
East Wellega	209	64
Jimma	256	60
Illubabor	603	45
<i>Total</i>	<i>4903</i>	<i>1167</i>

*Table-8 – Number of SSI implemented in region-4 until june'96.
source: Trade, Industry and tourism Bureau. Region – 4-*

From the table we can see that the change in case of Jimma is much lower as compared to zones that have fast expansion of SSI like west shewa (including A.A), East shewa (Nazereth), East Harege and Arsi.

3.4. **Promotional Measures**

One of the objectives of the study is to propose some promotional measures to be adopted to facilitate the development of small-scale industries after identifying constraints that hinder the growth and expansion of the industries. I have organized the solutions suggested by entrepreneurs and my own suggestion as follows.

1. **Special Credit Scheme**

As mentioned earlier, the major problem small scale industries face is lack of financial resource. Entrepreneurs are not comfortable with the existing credit arrangement of banks. Hence adjustments should be made. It should be arranged in such a way that entrepreneurs could have access to credit with reasonable interest rates, collateral requirements and extended period of repayment. Other sources of finance like "saving and borrow", "Edir" and "Equip" have be strengthened so that entrepreneurs could use them as source of finance. Therefore, the government should facilitate these things and establish financial institutions that can give access to loan in reasonable internet rate and payment period.

2. **Training**

Previously we have seen that managers of SSIs do not have adequate skill due to having less experience and qualification. Therefore, entrepreneurial development / training is necessary. They should get formal and informal training depending on their level of qualification. Formal education (like technique and vocational school) should be established and the existing ones should be strengthened so that they could have access to continue their

education . Apprenticeship and on the job training should also be given where necessary.

3. Technological development

Technological backwardness constitutes a serious constraint for the development of the industry. They use obsolete (old) machines for production as they don't have enough finance to acquire new technologies in order to upgrade the skill and proficiency of the existing operating system, introduction of new technology is necessary. Technological improvement in the form of new processes, equipment, tools, or machines could increase production, cut down costs, and enable to add new product line. The technological upgrading could have the problem of high cost of production, under capacity utilization and poor product quality. Therefore, special programs aimed at introducing relatively modern and appropriate technologies in some line of activities need to be designed.

4. Market regulation

As the price of coffee comes down drastically, coffee driers face fatal problem. Some of them have closed their operation. This problem affect not only coffee driers but also other firms too. Hence government should regulate the price of coffee.

5. Information and advisory services.

There is no firms that offers consultancy services to entrepreneurs how to become successful. Entrepreneurs have not access to reliable source of information on line of activities with potential to growth. Therefore, firms that

could provide information, advice and counseling to encourage and support entrepreneurs should be established.

6. **Controlling Measures**

Some small scale industries like woodworks, metal works and brick and blocket producing firms are in sever competition for inputs and market outputs with not licensed small business. So, to create conducive atmosphere for formal (licensed ones), illegal small businesses should be controlled.

7. **Support**

Government, private organization and NGOs should support/give incentive to small entrepreneurs to encourage them

8. **Association /merging)**

SSIs which are weak in performance should be merge together and form association as it provide opportunity for governments, donors, international organizations, the and the private sector for coordination. It also serve as an integrated approach to development. Association enable entrepreneurs to share their experience, knowledge, skill, capital and other resources. It also avoids competition.

CHAPTER – FOUR

CONCLUSION AND RECOMMENDATION

CONCLUSIONS

As per the objective of the study, this paper has attempted to identify key (major) constraints that affect the growth and development of small-scale industries. It has also identified promotional measures that should be adopted to enhance the growth and development of these industries.

Small-scale industries do have invaluable contribution towards the socio-economic development of any country. They can be used as a means of poverty reduction undertaking by expanding them throughout the country. They create employment opportunity at large, income, skills, goods and services. They are also a springboard for the development of large-scale industries.

However, as they operate in a very complex environment, they face a number of problems that affect the expected growth and development. These include lack of capital, low level of technological development, and shortage of raw materials, lack of market information, lack of entrepreneurial skills and lack of support. Due to these factors the growth is found to be sluggish or slow.

Adopting a policy that would allow the development of small-scale industries is vital and decisive. They need support, advice and close supervision. The government should create favorable business environment for the development of these business activities through policy interventions including taxes, credit, investment etc.

Small-scale industries cannot grow without appropriate financial sources, infrastructure facilities, entrepreneurial development and communication networks. All these are necessary to enhance growth and development. Access to finance is an important ingredient in the success of small-scale industries. For this reason, the gov't must be concerned that finance be available not only in volume but also must be affordable appropriate and timely. There should also be training program for entrepreneurs and infrastructure should be developed.

RECOMMENDATION

We have been seen that small-scale industries face many problems from different angles. In order to facilitate the growth and development of these industries, certain measures have to be taken. Even if the government is the major body that will take the responsibility of arranging favorable conditions and adopting policies that would allow the development of SSIs, private organizations, NGOs and individuals should also take part in this endeavor. In order to facilitate the growth and expansion of SSIs, the following action should be taken.

- 1. The government should establish financial institutions (other than banks) that enable small scale industries entrepreneurs to have access to loan with reasonable interest rate, collateral requirements and payment period. The government should also strengthen informal financial sources (like "Edir" and Equip") so that entrepreneurs could use them as a source of finance.*
- 2. Establishing training centers for entrepreneur ship development program in order to train small scale entrepreneurs. The government should strengthen the existing and establish new technical and vocational schools for this purpose.*
- 3. Establish special policy (program) that enable the expansion of small scale industries.*
- 4. The government should regulate the market condition of coffee as many of SSIs are affected by the price decline of coffee.*

5. *Create better infrastructural facilities like road, energy (power), and market information.*
6. *The government should arrange things on how the SSIs could have access to modern technologies to produce more and to become cost effective.*
7. *The government should establish forms that could give consultancy services to entrepreneurs on how to become successful in their business activities.*
8. *Generally, the government should encourage private organizations, NGOs and individuals to support these industries.*

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APPENDIX

JIMMA UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF MANAGEMENT

OBJECTIVE:- *This questionnaire is designed to collect information on constraints that hinder the growth of small scale industry in Jimma Town*

1. Name of the industry _____ Woreda _____
Kebele _____
2. The type of output/s/ produced _____
3. Working capital of the organization
initially _____
currently _____
4. The manager of the organization,
* The owner
* Relative to the owner
* Employed
* Other specify _____
5. Educational status of the manager
*BA and above
*Diploma
*12th complete + certificate
*12th complete
* Other specify _____
6. Had the manager of the organization taken training on specific task he/she carried out?
Yes _____ No _____
7. How many employees /workers/ are there in the organization?
Permanent _____
Daily workers _____
Total _____
8. How did you start-up the industries (business)
*By making market study

*By consulting experts

*By observing others having same business

* Other specify _____

9. Why you open the industry in this town?

- Since it is my residence
- Since it is suitable to the business
- Other specify _____

10. When you want to start up new business how is your decision procedure

- Through detail planning
- *Randomly
- * Other _____

11. When you plan which approach you use extensively?

- * intuitive
- *analytic

12. Have you encountered a loss on the operation of the business? Yes _____ No _____

If yes, for how long _____ During which stage you face the loss?

*initial _____ * lately _____

*middle _____

13. Have you financial problem? Yes _____ No _____

14. If yes in Q13, from where you get money?

*Bank *Lending individuals

*Other micro finance institution (specify) _____

If you donot use bank, what is the reason that you donot use bank? _____

15. If you use bank, are you comfortable with the interest the bank charges you?

Yes _____ No _____

16. Have you shortage of raw materials (inputs)? Yes _____ No _____

If yes what is the cause?

- Absence of the input in the region
- Lack of transportation (even if available)
- Other (specify) _____

17. Is there a possibility to diversify (add a product line) in the industry? Yes _____

No _____

If yes, why you don't do that _____

18. The growth of the industry

* Stagnant

* Moderate

* Slow

* Fast

19. If the growth is stagnant /slow/, what are the possible causes _____

20. Is there a government policy which affect the operation of the business?

Yes _____ No _____

If yes, specify _____

21. Do you get support from government or non-government organizations?

Yes _____ No _____

If yes what support do you get _____

22. Do you have market problem? Yes _____ No _____

If yes, what are they?

Yes

No

* Transportation

*Price fluctuation

*Lack of customers

*Other specify

23. Do you have infrastructural problem? Yes _____ No _____

If yes, whet are they?

Yes

No

* Power

*Water supply

* Telephone

*Transportation

*Others

24. Is these something which is government /community/concern you want to be improved? Yes _____ No _____

If yes , specify _____



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